

SB 274

LC - 2038

SB 255/260: Acquisition Value Tax

— Basics —

SENATE TAXATION

EXHIBIT NO. 1

DATE 2.17.09

BILL NO. SB274

Senate Bill 255/260, introduced by Senator Bob DePratu and co-sponsored by 30 statewide legislators:

1. Your taxes (and appraisal) start exactly at today's level – which is based on the 1996 appraisal. This ensures revenue neutrality and adequate school funding for the 2003 Legislature.
2. The current six-year reappraisal cycle is replaced by an annual adjustment for inflation (CPI) up to a maximum of 2%. That is the most that your property's taxable value can increase each year.
3. A new appraisal is determined for a property at the time of sale – by the actual sale price. If the transaction is not "arms length" then the value is determined by the Appraisal Office.
4. New construction value is determined by the Appraisal Office (no change from current system).

ADDITIONAL PROVISIONS

- **DEFLATION PROVISION:** An owner's appraised value may be appealed in an area where deflation has occurred.
- **OVER-55 CARRYOVER:** An owner 55 years of age or older may carry-over his acquisition value to a new home of the same or lower price.
- **FIRST-TIME HOME BUYERS:** A new first-time home buyer would receive a benefit of reduced property taxes based on an appraisal at 70% of the acquisition price, with the balance phased in over the next 6 years.
- **HERITAGE PROTECTION:** A property could be passed from one generation to the next (direct descendent only: parent => child => grandchild) without adjustment of the acquisition value, other than the annual increase.

SB 255/260: – Benefits –

Fairness – Montana residents would not see their property taxes soar simply because a neighboring property sold at a highly inflated price.

Protection – Retired Montana residents would not live in fear of being “taxed off” their property.

Predictability – Montana residents would know –within reason– how much their property taxes will increase each year.

Predictability in school and local government funding – Property tax revenue would increase at the inflation rate plus the growth of new construction (new property taxes). And from a historical perspective, that is the only growth rate that can logically be maintained over the long-term.

Over-55 Acquisition Carryover – Individuals over 55 who wish to downsize (purchase a smaller home), or change communities, could do so without fear of higher property taxes.

First-Time Home Buyer Incentive – Reduced property taxes during the initial 6 years, makes home ownership more affordable to first-time buyers.

Heritage Protection – A Montana family is able to pass a property from one generation to the next without soaring taxes forcing its sale.

Simplicity – A complex, cumbersome and inequitable property tax appraisal and appeal system is eliminated – resulting in substantial savings to the state budget.

Accuracy – Whether a property has increased in value, or experienced deflation due to a weak local economy, the appraisal is adjusted immediately at the time of sale by the actual sale price. What could be more fair than that?

Is SB 255 the same as California "Prop 13"?

ABSOLUTELY NOT...

California's Prop 13 was an acquisition value tax like SB 255, but that's where the similarity ends. Prop 13 was adopted by a voter initiative with provisions which severely impacted schools and local government...

Prop 13 rolled back property taxes to reduce tax revenue by over 45% in California (from \$11B to \$6B).

- **SB 255 & 260 are designed to be revenue neutral (actually revenue positive when factoring in new construction and the annual inflation adjustment).**

Prop 13 required any legislation that increases state revenue to be approved by a two-thirds (super-majority) vote of each house of the CA Legislature.

- **SB 255 & 260 still allow the MT Legislature to continue to equalize property taxes among different Classes of property, and increase the tax revenue if necessary by adjusting the Tax Rate multiplier.**

Prop 13, and all its provisions, were written into the Constitutional Amendment, which requires another Constitutional Amendment to make any changes.

- **SB 255 & 260 keep most of the legislation out of the Constitutional Amendment, which allows future legislatures to amend and adjust as necessary by a simple majority vote.**

Prop 13 required any taxes raised by local governments for a designated ("special") purpose to be approved by two-thirds of the voters.

- **SB 255 & 260 do not change the process for approving any local mill levies.**

Does SB 255 & 260 cause a tax shift in Montana from west to east?

NO...

- In the current 2003 reappraisal, 10 of the 14 counties which experienced the biggest increases in appraisals (of greater than 24%) were in eastern Montana.
- In the current 2003 reappraisal [after the suggested MDOR "band-aid" adjustment] a higher percentage of properties in eastern counties will experience a 20% increase in tax liability than in the west: 9.1% vs. 8.9%. Here are the counties experiencing the greatest impact from MDOR statistics:

NUMBER OF RESIDENTS WHO WILL SEE > 20% AND > 50% INCREASE IN TAX LIABILITY

	Increase in Tax Liability	
	>20%	>50%
Blaine	1-in-3	1-in-11
Prairie	1-in-3	1-in-15
Daniels	1-in-4	1-in-16
Wibaux	1-in-4	1-in-17
Meagher	1-in-4	1-in-22
Wheatland	1-in-4	1-in-27
Golden	1-in-4	1-in-31
Granite	1-in-5	1-in-13
Powell	1-in-5	1-in-16
Phillips	1-in-5	1-in-19
Madison	1-in-5	1-in-23
Sheridan	1-in-5	1-in-24
Mineral	1-in-5	1-in-31
Musselshell	1-in-5	1-in-45
Sweet Grass	1-in-5	1-in-48
State Avg:	1-in-11	1-in-66
<i>West MT</i>	<i>1-in-11</i>	<i>1-in-71</i>
<i>East MT</i>	<i>1-in-11</i>	<i>1-in-62</i>

- Also, because properties in western MT are generally priced higher, they will see a proportionately higher annual adjustment. For example, a \$160,000 home in western MT will experience a 100% higher annual adjustment under SB 255 than an equivalent \$80,000 home in eastern MT.

SB 255 & 260 does cause a tax shift – but it is a fair tax shift – primarily onto those who are driving real estate prices higher, and onto ultra high-end homes which have been under-appraised.

Is an acquisition value tax fair?

YES...

- The U.S. Supreme Court in an almost unanimous (8-1) decision, said: *"The state legitimately can conclude that a new owner, at the point of purchasing his property, does not have the same reliance interest warranting protection against higher taxes as does an existing owner"* **In simple words, the state of Montana has the right to protect its residents against unreasonable and unpredictable tax increases.**
- Although two similar properties in the same neighborhood can have a disparity in appraisals and taxes, an acquisition value tax is actually more fair to Montana residents since...
 - ✓ The new owner has the option to decide whether to buy –or not to buy– based on the level of taxes. The existing resident does not.
 - ✓ The new owner carries an implied ability to afford the taxes – both in his decision to purchase the property and in qualifying for the mortgage. That is not necessarily the case for the existing resident.
- It is also fair to the new home buyer because...
 - ✓ New buyers of similar properties are treated identically.
 - ✓ If a property has declined in value, the appraisal is automatically adjusted lower upon purchase.
 - ✓ The new owner receives the same protection and predictability in knowing what their property tax bills will be in future years.
- In addition, an acquisition value tax is fair because...
 - ✓ It is the only method to accurately appraise high-end \$1M+ homes.
 - ✓ It is the only method to accurately appraise rapidly-inflating properties.
 - ✓ It makes property taxes understandable.

In the end, there is no perfect property tax solution. So one must logically ask:

"Which property tax system is more inherently fair to Montana residents?"